

**MINUTES  
REGULAR MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, May 16, 2008  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, called the meeting to order at 8:35 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Michael Townsend, Chair  
Dr. Keith Meredith, Vice Chair  
Mr. Dave Byers  
Mr. Tom Connelly  
Mr. Jaime Gutierrez (via teleconference)  
Mr. Chris Harris  
Mr. Steve Zeman

Absent: Mr. Jim McLaughlin  
Mr. Larry Trachtenberg

A quorum was present for the purpose of conducting business.

**2. Approval of the Minutes of the April 18, 2008 Regular Session of the ASRS Board**

Mr. Jaime Gutierrez noted that there was an error in the draft April Minutes. He asked that the minutes be corrected to reflect that Mr. Gutierrez attended the meeting until 9:20 a.m.

**Motion:** Mr. Chris Harris moved to approve the minutes of the April 18, 2008, Regular Session of the ASRS Board with the noted correction.

Mr. Dave Byers seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

**3. Presentation, Discussion and Appropriate Action Regarding 2008 ASRS Legislation**

Mr. Pat Klein, Assistant Director, External Affairs Division, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2008 ASRS Legislation. Ms. Sorensen gave a brief update highlighting bills of interest.

**4. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Quarter Ending 3/31/08**

Mr. Terry Dennison addressed the Board regarding the Total Fund Performance Overview for the period ending March 31, 2008, highlighting specific areas of interest and concern.

Mr. Dennison reported on the Total Fund Performance for the period ending March 31, 2008.

	<b>Quarter</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>Inception</b>
<b>Total Fund</b>	-6.3%	-2.4%	7.1%	11.7%	5.9%	10.6%
<b>Benchmark*</b>	-5.8%	-0.3%	7.6%	11.5%	5.2%	10.4%
<b>Excess Return</b>	-0.5%	-2.1%	-0.5%	0.2%	0.7%	0.2%

\* Interim Benchmark (current): 38% S&P 500, 7% S&P 400, 7% S&P 600, 27% LB Aggregate, 19% MSCI ACWI ex US, and 2% NPI+100 bps. Note: Interim Benchmark incorporates a proration of 4% real estate and 5% private equity.

Policy History:

- 7/1/75-12/31/79 – 40% S&P 500/60% LB Aggregate
- 1/1/80-12/31/83 – 50% S&P 500/50% LB Aggregate
- 1/1/84-12/31/91 – 60% S&P 500/40% LB Aggregate
- 1/1/92-12/31/94 – 50% S&P 500/40% LB Aggregate/10% EAFE
- 1/1/95-6/30/97 – 45% S&P 500/40% LB Aggregate/15% EAFE
- 7/1/97-12/31/99 – 50% S&P 500/35% LB Aggregate/15% EAFE
- 1/1/00-9/30/03 – 53% S&P 500/30% LB Aggregate/17% EAFE
- 10/1/03-12/31/06 – 53% S&P 500/26% LB Aggregate/15% MSCI EAFE/ACWI ex. US(1)/6% NCREIF+100 bps.
- 1/1/07 – present – 31% S&P 500/7% S&P 400/7% S&P 600/26% LB Aggregate/18% MSCI ACWI ex US/6% NPI+100 bps/5% Russell 3000+300 bps

(1) MSCI EAFE/ACWI ex. US Benchmark is the MSCI EAFE prior to 10/1/05 and the MSCI ACW ex. US thereafter.

## **5. Presentation, Discussion and Appropriate Action Regarding the U.S. Large Cap Equity Managers Reporting on the Quarter Ending 3/31/08**

Mr. Gary Dokes, Chief Investment Officer, Ms. Sarah Wadsworth, Senior Portfolio Analyst, and Mr. Terry Dennison, addressed the Board regarding the U.S. Large Cap Equity Managers Reporting on the Quarter Ending March 31, 2008. As of March 31, 2008, the total market value of the ASRS U.S. Equity Large Cap Asset Class was \$8.3 billion, or approximately 32% of the ASRS total fund. The U.S. Equity Large Cap Asset Class policy target policy is 31% ( $\pm 5\%$ ). Since the inception date of June 30, 2002, the ASRS Large Cap Asset Class has tracked the S&P 500 Index. Nearly 70% of the assets are passively managed.

## **6. Presentation, Discussion and Appropriate Action Regarding the Fiscal Status of the State; Hiring Freeze Implications to the ASRS; and Possible Budget and Service Implications to the ASRS**

Mr. Paul Matson, Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, and Ms. Martha Rozen, Chief Administrative Officer, addressed the Board regarding the fiscal status of the state, hiring freeze implications to the ASRS, and possible budget and service implications to the ASRS. With estimates of a state budget shortfall of \$1.2 Billion for FY 2008 and \$2 Billion for FY 2009, Governor Janet Napolitano signed House Bill 2620 (Laws 2008, Chapter 58) a measure that balances the budget and erases the state's deficit for the current fiscal year, FY 2008.

Mr. Tom Connelly requested that this issue be addressed at future Board meetings until the issue is over. Mr. Matson stated that updates would be provided in the Director's Report section of the Board book. Mr. Connelly also requested that information regarding agency action and legislation that has taken place or is in the works be presented to the Board as well.

Mr. Tom McClory requested that the next two agenda items be switched to allow the guest speaker from the Attorney General's Office present first.

#### **7. Presentation, Discussion and Appropriate Action Regarding Trustee Legal Liability**

Mr. Terry Harrison, Section Chief of Liability Management Section, Attorney General's Office, addressed the Board regarding Trustee legal liability. Mr. Harrison provided a brief presentation to Trustees regarding legal liability and fielded several questions from Trustees.

Mr. Jaime Gutierrez left the meeting at 11:00 a.m.

#### **8. Presentation, Discussion and Appropriate Action Regarding Fiduciary Responsibilities with Respect to Trustee Education and Knowledge**

Mr. Tom McClory, Assistant Attorney General, addressed the Board regarding fiduciary responsibilities with respect to Trustee education and knowledge. Mr. McClory provided a brief presentation to Trustees regarding fiduciary responsibility as a Trustee and fielded several questions from Trustees.

#### **9. Presentation, Discussion and Appropriate Action Regarding ASRS Board Elections**

Mr. Michael Townsend addressed the Board regarding ASRS Board Elections. Mr. Townsend stated that the elections would take place during the July 18, 2008 Board meeting.

#### **10. Director's Report**

Mr. Paul Matson called the Trustees attention to a document in the Director's Report that highlighted a small, technical change to an asset allocation document.

Mr. Matson also recognized two employees who will soon be departing from the ASRS: Ms. Rita Johnson, Employer Liaison will be retiring and Mr. Mike Viteri, Manager of Portfolio and Trading Strategies will be moving out of state.

#### **11. Possible Presentation Regarding Board Committee Updates**

Mr. Steve Zeman, Vice Chair, External Affairs Committee (EAC), stated that the next EAC meeting will be June 6, 2008.

Mr. Chris Harris, Investment Committee (IC), stated that the next IC meeting will be June 4, 2008.

Mr. Dave Byers, Chair, Operations Committee (OC), stated that the next OC meeting would be June 26, 2008.

#### **12. Board Requests for Agenda Items**

There were no requests for agenda items.

**13. Call to the Public**

Mr. Uwe Fink, Retiree, requested to publicly thank Ms. Lesli Sorensen, Government Relations Officer, for her efforts this legislative session thus far.

**14. The next ASRS Regular Board meeting is scheduled for Friday, July 18, 2008, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**15. Adjournment of the ASRS Board**

Mr. Townsend adjourned the May 16, 2008 Board meeting at 12:10 p.m.

ARIZONA STATE RETIREMENT SYSTEM

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Anne Schrode, Secretary

Date

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Paul Matson, Director

Date